STUDY OF INDIA'S FOREIGN TRADE WITH EUROPEAN COUNTRIES

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ABSTRACT

The Foreign Trade of a country consists of inward and outward movement of goods and services, which result into outflow and inflow of foreign exchange from one country to another country. It is the mainly exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). Industrialization, advanced transportation**,** multinational corporations, globalisation and outsourcing are all having a major impact on the international trade system. Increasing international trade is very important to the continuance of globalization. Actually, International trade is a major source of economic revenue for any nation that is considered a world power. Without international trade, nations would be limited to the goods and services produced within their borders.The economy of India is characterised as a developingmarket economy. It is the world's fifth-largest economy by nominal GDP and the third-largest by purchasing power parity. According to the International Monetary Fund, on a per capita income basis, India ranked 139th by GDP(nominal) and 118th by GDP (PPP) in 2018. From independence in 1947 until 1991, successive governments promoted protectionist economic policies with extensive state intervention and regulation; the end of the Cold War and an acute balance of payments crisis in 1991 led to the adoption of a broad program of economic liberalisation. The long-term growth perspective of the Indian economy remains positive due to its young population and corresponding low dependency ratio, healthy savings and investment rates, and is increasing integration into the global economy. India is amongst the world's fastest-growing large economies and is an important player in global economic governance. India is an important trade and investment partner for the EU. It represents a sizable and dynamic market, with an annual GDP growth rate of around 6% (pre-Covid-19). In this research paper I focused on major import and export between India and European Countries along with this I also explained the Brexit impact on India-EU trade.

OBJECTIVES

1. To discuss the export & import theoretically.
2. To analyse the balance of trade b/w India and European Countries.
3. Explain the Brexit impact on India- EU trade.
3. To draw conclusion regarding the various potential positive roles of exports and suggest a suitable strategy for natural development.

METHODOLOGY

The methodology of this paper is simply based on secondary data and analysis. Primary data on exports and economic development of India is not possible to collect, individually. Hence, Government published data has been adopted for present study.

KEYWORDS : - FDI, EU, BREXIT IMPACT, India -EU Trade.

INTRODUCTION

India is one of the 10 countries that the European Union (EU) has chosen as strategic partners in the international community because India is the most populous democracy in the world. The importance, both economic and political, of this Asian giant for the EU is unquestionable. India is its 10th largest trading partner. It is also a privileged partner on innovation issues, such as energy or scientific research. India-EU relations date to the early 1960s, with India being amongst the first countries to establish diplomatic relations with the European Economic Community. A cooperation agreement signed in 1994 took the bilateral relationship beyond trade and economic cooperation. The EU as a bloc of 28 countries is India's one of the largest (3rd) regional trading partner while India was the EU's 9th largest trading partner in 2018-19. India's overall bilateral trade with European Union for the period 2018-19 is 115.64 US$ billion comprising of India's exports to EU is 57.20 US$ billion (17.33% of India's exports) and imports 58.43 US$ billion (11.37% of India's imports). India has established Institutional mechanisms with European Union and its member countries. These institutional mechanisms are handled by at various levels in Department of Commerce.India is one of the first country who developing relation with the European Union. The EU is India's largest trading partner accounting one-fifth share in both export and import. Several agreements have been signed between the EU and India in the past few years, resulting in even more imports and exports, both of goods and services.The EU continued to be one of the largest sources of Foreign Direct Investment (FDI) for India with FDI inflows from the EU to India valued at US $ 609.84 billion from Apr 2000-March 2017. The economy slowed in 2016 due to shocks of "demonetisation" and in 2017 for introduction of Goods and Services Tax. In 2019, India's ten largest trading partners were USA, China, UAE, Saudi Arabia, Hong Kong, Iraq, Singapore, Germany, South Korea and Switzerland. In 2018–19, the foreign direct investment (FDI) in India was $64.4 billion with service sector, computer, and telecom industry remains leading sectors for FDI inflows.Foreign trade in India includes all imports and exports to and from India. At the level of Central Government it is administered by the Ministry of Commerce and Industry. Foreign trade accounted for 48.8% of India's GDP in 2017.India is one of the fastest growing and most attractive economies in the world and has emerged as a desirable destination for Foreign Investment.

GROWTH IN INDIAN ECONOMY IN VARIOUS SECTOR IN 2018-19

The following growth drivers have shaped merchandise exports growth:

- Engineering Goods rose from USD 78,695.69 million in 2017-18 to USD 83,704.54 million in 2018-19, a growth of 6.36%.
- Petroleum Products rose from USD 37,465.10 million in 2017-18 to USD 47,954.54 million in 2018-19, a growth of 28%.
- Organic & Inorganic Chemicals rose from USD 18,508.48 million in 2017-18 to USD 22,573.87 million in 2018-19, a growth of 21.97%.
- Drugs & Pharmaceuticals rose from USD 17,282.81 million in 2017-18 to USD 19,188.46 million in 2018-19, a growth of 11.03%.
- Cotton Yarn/Fabs. /made-ups, Handloom Products etc., rose from USD 10,260.38 million to USD 11,206.44 million in 2018-19, a growth of 9.22%.
- Electronic Goods rose from USD 6,393.12 million in 2017-18 to USD 8,880.96 million in 2018-19, a growth of 38.91%.
- Plastic & Linoleum rose from USD 6,851.12 million in 2017-18 to USD 8,609.08 million in 2018-19, a growth of 25.66%.

The EU is India's largest trading partner, accounting for €80 billion worth of trade in goods in 2019 or 11.1% of total Indian trade, on par with the USA and ahead of China (10.7%). The EU is the second-largest destination for Indian exports (over 14% of the total) after the USA.

In the year 2014, India's total export of agricultural commodities to European Union was of the order of US $ 5078.90 million. India's principal exports during this period were shrimp and prawns, molluscs, cashew nuts, grapes, coffee, rice, sesamum seed, castor oil, soya oil-cake, tobacco etc.

This Division deals with India’s trade and economic cooperation with European Union region and some of its member countries viz, UK, Germany, Spain, Netherlands, Portugal, France, Italy, Belgium, Luxembourg and Ireland, Albania, Croatia, Czech Republic, Denmark, Estonia, Iceland, Latvia, Montenegro, Norway, Serbia, Slovak Republic, Slovenia, Sweden, Switzerland, Liechtenstein, Austria, Bosnia & Herzegovina, Bulgaria, Cyprus, Finland, Greece, Hungary, Lithuania, Macedonia, Malta, Poland, Romania, Turkey.

EU-INDIA MOST TRADED GOODS

More detail about the goods exchanged between the EU and India is given in Figure 7, showing the 20 most traded goods at SITC-3 level. These top 20 goods covered 45 % of total trade in goods in 2019. Eight belonged to machinery and vehicles, seven to other manufactured products, four to chemicals and one to energy. The most traded product group at this level was pearls and (semi-) precious stones. Another interesting way to look at the data is to investigate the cover ratio (exports / imports) of traded goods, showing the direction of the trade flows between the two economies. These ratios can be found in the right-hand margin of Figure 7. Eight products were below 50 %, indicating EU imports from India were at least twice as large as EU exports to India. Seven products were above 200 %, indicating EU exports to India were at least twice as large as EU imports from India. Five products were between 50 % and 200 %, showing more balanced trade.

HISTORY OF INDIAN TRADE RELATION WITH EUROPE

India's trade relations with Europe go back to the ancient days of the Greeks. During the Middle Ages trade between Europe and India and South-East Asia was carried on along several routes.

The Asian part of the trade was carried on mostly by Arab merchants and sailors, while the Mediterranean and European part was the virtual monopoly of the Italians. Goods from Asia to Europe passed through many states and many hands. Yet, trade remained highly profitable.

The old trading routes between the East and the West came under Turkish control after the Ottoman conquest of Asia Minor and the capture of Constantinople in 1453. Moreover, the merchants of Venice and Genoa monopolized the trade between Europe and Asia and refused to let the new nation states of Western Europe, particularly Spain and Portugal, have any share in the trade through these old routes.The West European states and merchants therefore began to search for new and safer sea routes to India and the Spice Islands in Indonesia, then known as the East Indies. They wanted to break the Arab and Venetian trade monopolies, bypass Turkish hostility, and open direct trade relations with the East.They were well-equipped to do so, as great advances in ship-building and the science of navigation had taken place during the fifteenth century. Moreover, the Renaissance had generated a great spirit of adventure among the people of Western Europe.

The first steps were taken by Portugal and Spain whose seamen, sponsored and controlled by their governments, began a great era of geographical discoveries. In 1492, Columbus of Spain set out to reach India and discovered America instead. In 1498, Vasco da Gama of Portugal discovered a new and all-sea route from Europe to India.He sailed round Africa via the Cape of Good Hope and reached Calicut. He returned with a cargo which sold for 60 times the cost of his voyage. These and other navigational discoveries opened a new chapter in the history of the world.The seventeenth and eighteenth centuries were to witness an enormous increase in world trade. The vast new continent of America was opened to Europe and relations between Europe and Asia were completely transformed.Another major source of early capital accumulation or enrichment for European countries was their penetration of Africa in the middle of the fifteenth century. In the beginning, the gold and ivory of Africa had attracted the foreigner. Very soon, however, trade with Africa centered around the slave trade. In the sixteenth century this trade was a monopoly of Spain and Portugal.

Later it was dominated by Dutch, French and British merchants. Year after year, particularly after 1650, thousands of Africans were sold as slaves in the West Indies and in North and South America.A great deal of West European and North American prosperity was based on the slave trade and the plantations worked by slave labor.Moreover, profits of slave trade and the slave-worked plantations provided some of the capital which financed the Industrial Revolution in the eighteenth and nineteenth centuries. A similar role was later played by the wealth extracted from India.In the sixteenth century, European merchants and soldiers also began the long process of first penetrating and then subjecting Asian lands to their control.

Portugal had a monopoly of the highly profitable Eastern trade for nearly a century. In India, Portugal established its trading settlements at Cochin, Goa, Diu and Daman.From the beginning, the Portuguese combined the use of force with trade. In this they were helped by the superiority of their armed ships which enabled them to dominate the seas.A handful of Portuguese soldiers and sailors could maintain their position on the seas against the much more powerful land powers of India and Asia. By threatening Mughal shipping, they also succeeded in securing many trading concessions from the Mughal Emperors.They seized Indian territories on the coast and waged constant war to expand their trade and dominions and safeguard their trade monopoly from their European rivals. Nor did they shy away from piracy and plunder.

TABLE-1

BALANCE OF TRADE WITH EUROPEAN COUNTRIES, 2019

S.NO.	NAME OF COUNTRY	IMPORT (EUR, MILLION)	EXPORT (EUR, MILLION)	BALANCE OF TRADE
1	Germany	7522	11920	4398
2	Netherlands	5310	2352	-2958
3	France	5261	5773	512
4	Italy	5155	4001	-1154
5	Belgium	4602	6678	2076
6	Spain	3952	1345	-2607
7	Poland	1421	651	-770
8	Portugal	828	119	-709
9	Sweden	685	1208	523
10	Denmark	657	533	-124
11	Austria	626	950	324
12	Ireland	503	476	-27
13	Czechia	502	557	55
14	Hungry	448	227	-221
15	Greece	402	87	-315
16	Romania	378	226	-152
17	Slovenia	300	130	-170
18	Finland	225	526	301
19	Bulgaria	168	110	-58
20	Malta	156	21	-135
21	Slovakia	140	100	-40
22	Croatia	109	40	-69
23	Cyprus	82	16	-66
24	Latvia	58	28	-30
25	Lithuania	55	45	-10
26	Estonia	46	55	-9

27	Luxembourg	7	53	-46

SOURCE: EUROSTAT(Online data code: ext_st_eu27_2019sitc and DS 018995)

EU data are compiled according to Community guidelines and may, therefore, differ from national data published by the Member States. In this table total 27 countries covered for analysis balance of trade. Out of Total 27 countries only 7 countries show the positive balance of trade while 20 countries show the negative balance of trade. When we further analyse negative balance of trade, we find 3 that countries have huge negative balance more than EUR 1000 million. All these data show our dependability on the other countries. India has to increase his positive balance of trade by improving export.

BREXIT IMPACT ON INDIAN ECONOMY

Former Reserve Bank of India Governor Raghuram Rajan had said that “We are in the midst of an age of competitive devaluation and beggar-thy-neighbour policy. When elephants fight, the grass suffers.” BREXIT is creating fear amongst investors and businesses around the globe. The implication of the BREXIT will directly impact not only the Indian stock market but the global market in totality, including the emerging markets in the world. This is because of the high volatility in the pound. This is not only making the stock market in India jittery but is also increasing the risk for the businesses in the country. The exit of Britain from the EU will have a significant effect as it is the largest export market for India. The investors are concerned around the nation that it is going to have a negative effect as India invests more in the United Kingdom than the rest of Europe combined. Both UK and EU account for 23.7 percent of Rupee’s effective exchange rate. With BREXIT, foreign portfolio investments will outflow and will lead to the weakening of the rupee.

UK’s third-largest Foreign Direct Investment (FDI) investor in India. There are more than 800 Indian companies in Britain. The Indian companies and sectors that have invested in Britain are having sleepless nights while worrying about BREXIT. They believe that if Britain leaves the EU it will adversely affect the movement of investors into the UK and will directly impact the investment. Britain is considered as a gateway to the EU for India, with it opting out, the advantage by India is lost. Therefore, there is a need to get border-free access. BREXIT will hamper India’s businesses based in the UK as till now they had border-free access to the rest of Europe. This was the main reason why Indian companies go to the UK. BREXIT may have an impact on the decisions of Indian companies to invest in the future.UK accounts for 17 percent of India’s Information Technology (IT) exports. If Britain chooses to opt-out the overhead costs are also going to increase. As per one of the reports by NASSCOM: “Indian IT industry is going to experience a negative influence in the short term due to BREXIT.” The return of these companies is going to be affected because of the depreciation of the pound. In totality, the sectors which will be affected because of BREXIT will be auto, auto components, metals, oil, pharmaceuticals, IT, etc. However, RBI is trying to recalibrate the monetary policy in order to reduce market volatility.

IMPACT OF BREXIT ON INDIA

1. Economy- In the wake of current developments in the world economy such as BREXIT, India's economic resilience has strengthened during the recent times on account of factors such as announcements of big bang FDI reforms and a significant jump in FDI inflows, narrowing current account deficit, declining trade balance due to fall in commodity prices and several measures undertaken by the Government to boost up investments sentiments in the economy. Therefore, India's strong macroeconomic fundamentals and conducive policy measures undertaken by the government in the recent times will help in mitigating the impact of adverse international developments.

2. Trade - At present, India's trade with Britain stands at around US$ 14 billion. Britain's exit could also mean Britain and EU could compete for trading with India and enter into long term relationships with increased growth of trade.

3. Trade Creation for Indian Businesses- India's export to the UK is expected to increase as there may be trade diversion in favour of India from other (remaining) EU countries. Similarly, India's import from the UK is expected to increase as there may be more incentive to British exporters to further explore the Indian market. Overall, there exits opportunities of trade creation for India due to possibility of decreasing intra-regional trade among the EU countries.

4. Bilateral Trade and Investment Agreements- It is expected that the EU will take a more favourable look to complete its negotiations with India to conclude the EU-India Bilateral Trade and Investment Agreement (BTIA).

5. Services- With the enhancement of bilateral trade in services, there could be generation of employment opportunities for skilled and unskilled workforce in the services sector in merchanting, other trade related services between related enterprises, professional, management consulting and R&D services. India-UK bilateral trade in services is approx. £2.5 billion - £3 billion in the recent years.

6. Investment and Capital Flows-The investment inflows from EU to India will continue and are also not expected to be impacted by the BREXIT vis-a-vis India's growth resilience and promising potential growth trajectory. On account of BREXIT and expected depreciation of the British Pound, in future, Indian investors in the UK may get more favourable investment opportunities. The British investors may like to divert their investment to India and other such countries where they expect to get better returns. Overall, there could be investment creation for India and strengthening of the capital markets of both the nations. Further, BREXIT may result in slowdown in real estate prices and with a depreciating Pound; the UK will provide longer term investment opportunities in the real estate sector to India.

7. Migration and employment opportunities- With BREXIT, the UK will no longer be obliged to offer quota-based jobs to the citizens of the EU countries. This might open up the market for skilled and semi-skilled labour for Indian migrants, including temporary workers, in the UK.

8. Tourism- In response to Brexit's impacts, travelling to the UK will become cheaper, facilitating increase in tourist movements and educational travel with the big drop in the value of the Pound, and then we could see a surge in leisure tourism to Britain, as travelling may become cheaper.

9. Financial Market- The impact of BREXIT on financial markets was short lived due to strong macroeconomic fundamentals of the Indian economy and markets have regained their stability in due course of time.

10. Currency- The fluctuations in currency markets will be for a shorter period on account of India's decent FOREX reserves position and strong policy measures taken by the central bank in the recent times. However, volatility in the currency markets cannot be ruled out as and when the negotiation of the UK breakout from EU progresses. To sum up, BREXIT will not have much impact on Indian economy primarily because India is run by domestic demand and supply; although a few effects, both positive and negative can be envisaged in some industries individually.

CONCLUSION

As we know India is one of the first country who developing relation with the European Union. The EU is India's largest trading partner accounting one-fifth share in both export and import. Several agreements have been signed between the EU and India in the past few years, resulting in even more imports and exports, both of goods and services.Although EU –India trade has achieved a great volume of trade, it has anenough scope for further improvement. There is a need for EU and India to look into policy, process, procedures and institutional action governing their trade to ensure a voluminous increase.Now UK is not the part of EU after Brexit but we know UK is third-largest Foreign Direct Investment (FDI) investor in India. There are more than 800 Indian companies in Britain. The Indian companies and sectors that have invested in Britain are having sleepless nights while worrying about BREXIT Both EU-India has to give a greater attention to the problem of access to markets which will require them to recognize among other things, third party certification of their goods by Bureau of Industrial Standards, harmonize laws and accept principles of equivalence, create offices to facilitate quicker and easier certification and implement managerial reforms issues.The exit of Britain from the EU will have a significant effect as it is the largest export market for India.Although EU has been pushing in very hard the need for tariff reduction to the levels of tariffs accepted by China. Giving due regard to India's position on world trade explained at the Doha round of WTO negotiations, it may be difficult in the very immediate future to slash tariffs drastically. However, India could strengthen the trade ties with EU by effecting further reductions in tariffs. In addition to the basic customs duty, various additional duties, taxes apply resulting in a complex and non-transparent system. India also imposes a number of non-tariff barriers in the form of quantitative restrictions, import licensing, mandatory testing and certification for a large number of products, as well as complicated and lengthy customs procedures.

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